

VZCZCXRO0749
PP RUEHDBU
DE RUEHKB #1614/01 3101518
ZNY CCCCC ZZH
P 061518Z NOV 06
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC PRIORITY 1630
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 1813
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RULSDMK/DEPT OF TRANSPORTATION WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001614

SIPDIS

SIPDIS

DEPT FOR EB, EUR/CARC, EB/TRA/AN, EB/CBA MERMOUD

E.O. 12958: DECL: 07/21/2016
TAGS: [ECON](#) [EAIR](#) [PGOV](#) [PREL](#) [ETRD](#) [AJ](#)
SUBJECT: BOEING NEGOTIATIONS ON TRACK

REF: BAKU 1570

Classified By: AMB ANNE E. DERSE; REASONS 1.4 (B,D)

11. (SBU) SUMMARY: At a November 3 meeting with the Ambassador, Boeing's Sales Director for Europe and Central Asia Serdar Gurz said he is "cautiously optimistic" about the sale of five Boeing airplanes to Azerbaijan. He said that AZAL's Director General Janhangir Askerov is following Boeing's action plan, but cautioned that Airbus has heard "Boeing is here" and now plans to visit Azerbaijan in November. Gurz and Boeing's Regional Director Tibet Giray said potential issues could be Askerov's expectations of EXIM commitment as a prerequisite for the deal, the loan percentage that EXIM will fund, the exposure fees EXIM will charge, and perhaps the country of registration for any purchased Boeing airplanes. The Ambassador said she supports Boeing's efforts and reiterated her commitment to help, including her willingness to discuss a ceremonial signing with Askerov when she meets with him. END SUMMARY.

12. (SBU) During his November 3 meeting with the Ambassador, Boeing's Sales Director for Europe and Central Asia Serdar Gurz said the negotiations with Azerbaijan's Civil Aviation Authority and state airline (AZAL) "are going according to plan." AZAL's Director General Jahangir Askerov is following the action plan Gurz set out, he said. Gurz also noted that eight or nine Boeing engineers are in Azerbaijan configuring the planes' designs to AZAL's specifications so that Boeing can determine what price to quote AZAL for the planes. Boeing's Regional Director for Aircraft Contracts, Commercial Airplanes Group Tibet Giray, added that the specifications should be finished in late November and the price set by early December, allowing for the possibility of Boeing and AZAL to sign by the end of 2006. Gurz told the Ambassador that Airbus has deployed its A-30s and A-50s and is sending representatives to Baku next week after hearing about Boeing's presence, but said he remains "cautiously optimistic."

Possible Hurdles: Lending and Registration

13. (C) Gurz said he has contacted EXIM Bank about the funding, but there are potential problems because of EXIM's negative perception of AZAL's dealings with Sikorsky on a helicopter contract three years ago. Gurz said he will be meeting with EXIM's David Fiori November 8 to request a "letter of enthusiasm." Giray explained that Askerov wants a commitment from EXIM Bank as a prerequisite for the Boeing deal, but Giray said he is not sure if the "letter of enthusiasm" would be enough. EXIM normally reviews a

contract for lending six to nine months before delivery, Giray continued, but despite AZAL's previous experience borrowing from EXIM, Giray said, he is unsure Askerov will remember that timeline. According to Giray, two other possible issues will be 1) Askerov is expecting EXIM to finance the maximum 85 percent of the total price, but EXIM may decide to lend a smaller percent and 2) EXIM charges an exposure fee between 3.5 and 8 percent based on country risk and Askerov may be unhappy if the fee is too high. Gurz said that in the past, Askerov has also been reluctant to promise a sovereign guarantee for loans, but it should not be an issue this time since Askerov reiterated November 2 that the sovereign guarantee is "no problem."

14. (SBU) Country of registration may also be a problem, Giray said, since Azerbaijan has not signed the Cape Town Convention which would allow the lender to repossess and reregister the airplanes if AZAL defaults on payments. The problem may be, Gurz explained, that Airbus allowed AZAL to register in Azerbaijan but EXIM will not.

Ambassador Offers Support

15. (SBU) The Ambassador thanked Gurz and Giray for the update and reiterated her support for Boeing, especially in the face of increased Airbus presence and competition. She offered to help with the ceremonial signing in January or February, noting that Foreign Minister Mammadyarov had expressed his enthusiasm to her for a public signing ceremony. The Ambassador asked Gurz and Giray to keep her updated on progress with AZAL and EXIM and offered her support as problems arise.

BAKU 00001614 002 OF 002

DERSE